



3 Stocks to Add to Your Portfolio in a Market Pullback

Description

The stock market has been having short growth cycles followed by a [pullback](#) since the U.S. Federal Reserve began hiking interest rates in March 2022. The TSX Composite Index surged 6.5% in January after slumping 5.6% in December 2022 when the Fed hiked interest rates by 50 basis points (bps). In the upcoming Fed meeting on January 31, investors hope it might slow the rate hikes. But if it announces another 50-bps hike, you can expect a market pullback, like in December.

Preparing for a market pullback

You can prepare an action plan of what you should do in a bear market to avoid missing an opportunity to buy a growth stock at a dip or lock in high dividend yields. Here are three stocks to buy in a market pullback.

goeasy stock

goeasy ([TSX:GSY](#)) stock surged over 17% in January after falling 11% in the December 2022 market pullback. This sub-prime lender sees a surge in loan originations, as the prime lending market tightened due to rising interest rates. goeasy raised \$57.9 million through equity over and above its securitization facility with banks to fund its growing loan book.

This surge could work both ways for goeasy. The growing consumer loan portfolio brings higher loan processing fees but adds to the credit risk. If the company can control bad debt efficiently, that's a significant upside for the stock.

As per the last quarterly earnings, the net charge-off rate (the percentage of loans receivable likely to default) of 9.3% was in line with its target range of 8.5-10.5%. The stock could move alongside the market momentum till it maintains the net charge-off rate within the target range. Any warning of it crossing a threshold could pull the stock down.

Nevertheless, goeasy has the experience and financial flexibility to take calculated risks and give long-

term growth and a regular quarterly dividend.

Magna stock

Magna International ([TSX:MG](#)) stock surged 13.7% in January after falling 8.8% in the December 2022 market pullback. The stock surged, even after the company released a slightly weak [update](#) on its preliminary 2022 earnings. Magna supplies automotive components and third-party automotive manufacturing services.

Since mid-2021, Magna has been struggling with chip supply shortages. It has the manufacturing capacity but is underutilized because of delays in customers' production schedules, leading to operational inefficiencies. The delay is eating up the company's adjusted EBIT (earnings before interest and taxes) margin, which it expects to be 4.3% in 2022 — below its November guidance of 4.8-5%. 2022 — and the stock price looks at the future growth potential, which is bright for Magna.

Now that chip supply shortages have eased, production could return soon. However, it will take a few months for the stock to return to its electric vehicle (EV) rally, as inflation and higher interest rate pressure consumers' purchasing power. It is a stock to buy in a market pullback, as the company has the financial flexibility to withstand a recession and the potential to ride the EV wave.

True North Commercial REIT

True North Commercial REIT ([TSX:TNT.UN](#)) stock jumped more than 12.5% after falling 8.25% most of December. Rising interest rates made loans expensive, reducing the purchasing power of companies and individuals. The reduced demand for real estate reduced property prices, impacting all Canadian [real estate investment trusts' \(REITs\)](#) fair value of investments. The positive sentiment among investors of a possible slowdown in rate hikes has pushed up True North Commercial REIT's stock.

The stock could fall in another market pullback from another interest rate hike. That is a good time to buy the stock and lock in a dividend yield of 10%. Remember, this yield is higher than the commercial REIT's average yield of 6-7%. There is a risk of a distribution cut if higher interest expense pushes the distribution-payout ratio beyond 100% (the current dividend payout ratio is 95%). If the REIT survives a recession without a distribution cut, its stock price could surge double digits to its normal trading price of \$7.3.

Bottom line

You can make the most of the [volatile market](#) by buying the above stocks in a dip.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:GSY (goeasy Ltd.)

2. TSX:MG (Magna International Inc.)
3. TSX:TNT.UN (True North Commercial Real Estate Investment Trust)

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Date

2025/06/27

Date Created

2023/01/30

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